

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 SP-02 AID-05 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04

SIL-01 PA-01 PRS-01 SAM-01 L-03 EA-07 /093 W

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O R 281142Z OCT 75

FM AMEMBASSY BONN

TO AMEMBASSY TOKYO IMMEDIATE

INFO SECSTATE WASHDC 3893

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TOKYO FOR TREASURY ATTACHE, PLEASE PASS TO SAM CROSS

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: EMMINGER ON THE DM/DOLLAR RATE:

1. BUNDESBANK VICE PRESIDENT EMMINGER HAS CONFIRMED TO US THAT THE FOLLOWING REUTER'S STORY ACCURATELY REPORTS HIS REMARKS.

2. BEGIN REUTERS STORY:

BUNDESBANK VICE PRESIDENT OTMAR EMMINGER SAYS HE BELIEVES AN EXCHANGE RATE FOR THE DOLLAR OF BETWEEN 2.50 AND 2.70 MARKS IS QUITE REASONABLE.

HE WAS ANSWERING A QUESTION FROM FOREIGN JOURNALISTS ABOUT WHETHER THE CENTRAL BANK WANTS TO KEEP THE DOLLAR MARKET PARITY WITHIN CERTAIN LIMITS. BUNDESBANK DOLLAR PURCHASES AND SALES IN THE LAST THREE WEEKS INDICATE IT SEES A CURRENT RANGE OF AROUND 2.56 TO 2.68 MARKS AS REALISTIC FOR THE DOLLAR, FOREIGN EXCHANGE

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SOURCES SAID EARLIER.

EMMINGER SAID THE 2.50 TO 2.70 RANGE IS NOT AN OFFICIAL TARGET ZONE WHICH THE BUNDESBANK IS PREPARED TO DEFEND AT ALL COSTS.

BUT IF THERE ARE STRONG TENDENCIES TO MOVE THE RATE BEYOND THESE LIMITS, THE BUNDESBANK WILL INTERVENE TO DAMPEN THESE MOVEMENTS, HE ADDED.

NO COUNTRY HAS BEEN SO BADLY BURNT AS GERMANY THROUGH HOLDING ITS CURRENCIES IN A FIXED LINE AGAINST THE DOLLAR, HE SAID. SINCE THE MARK WAS FLOATED IN MARCH 1973 THE BUNDESBANK HAS BEEN DOING A GREAT DEAL TO STABILIZE THE EXCHANGE RATE AS BEST IT CAN, EMMINGER SAID.

INFORMED BANKING SOURCES SAID THE BUNDESBANK HAS BEEN SUPPORTING THE DOLLAR IN RECENT WEEKS TO DAMPEN DOWN MOVEMENTS OF A PURELY PSYCHOLOGICAL NATURE CAUSED BY CONCERN OVER THE NEW YORK FINANCIAL CRISIS.

IT MAY WELL BE THAT THE BUNDESBANK THINKS THAT WORRIES WILL DISAPPEAR IN A FEW WEEKS, SOURCES ADDED.

DURING THE PAST TEN TRADING DAYS (THIS WAS WRITTEN ON OCTOBER 22) BUNDESBANK SUPPORT PURCHASES AT THE FIXING TOTALED 109.65 MILLION DOLLARS. THE SOURCES SAID THE BANK'S RESERVE FIGURE SHOWS IT HAS ALSO BEEN ACTIVELY INTERVENING OUTSIDE THE FIX. END REUTER STORY.

3. EMMINGER EMPHASIZED TO US THAT HE HAD DESCRIBED THE \$1 EQUAL DM 2.50 - 2.70 RANGE AS "REASONABLE" ONE, BUT NOT AS AN OFFICIAL TARGET ZONE. HE SAID THAT IN THIS HE HAD SAID NOTHING NEW, PRESIDENT KLASSEN HAD MADE THE

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CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

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SAME POINT A FEW WEEKS AGO (COMMENT: KLASSEN HAD SAID THAT THE CURRENT RATE AT THE TIME WAS A REASONABLE ONE).

4. COMMENT: THE BUNDESBANK INDICATED IN THIS YEAR'S ANNUAL REPORT THAT IT FEELS THAT EXCHANGE MARKET INTERVENTION SHOULD GO BEYOND ATTEMPTING TO PREVENT DAILY EXCHANGE RATE FLUCTUATIONS FROM EXCEEDING 1 PERCENT. INSTEAD, THE GOAL OF INTERVENTION POLICY SHOULD BE TO SMOOTH THE MARKET ALSO OVER A LONGER PERIOD. THE TRICK HERE IS, OF COURSE, TO KNOW WHEN A MARKET TREND IS "TEMPORARY" AND THEREFORE SHOULD BE RESISTED AND WHEN IT REPRESENTS A TRULY LONGER TERM TREND. BUNDESBANK AND GOVERNMENT OFFICIALS QUITE FREQUENTLY GET ASKED ABOUT THEIR FEELING REGARDING THE EXCHANGE RATE IN VIEW OF THIS ANNOUNCED POLICY AND REMARKS SUCH AS EMMINGER'S RESULT. THE \$1 EQUAL DM 2.50 - 2.70 "REASONABLE" RANGE HAS BEEN MENTIONED BY BUNDESBANK OFFICIALS REPEATEDLY DURING THE LAST FEW MONTHS IN PRIVATE AND ALSO IN SOME PUBLIC STATEMENTS. EARLIER OFFICIALS HAD TENDED TO MENTION A \$1 EQUAL

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DM 2.35 - 2.50 RANGE, WHICH THEY, HOWEVER, ALSO DID NOT "DEFEND" VERY VIGOROUSLY WHEN THE MARKET STRONGLY MOVED BEYOND IT.

HILLENBRAND

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